

Message Text

LIMITED OFFICIAL USE

PAGE 01 GENEVA 03868 01 OF 02 181237Z

ACTION EB-07

INFO OCT-01 EUR-12 EA-07 IO-13 ISO-00 AGRE-00 CEA-01
CIAE-00 COME-00 DODE-00 FRB-03 H-01 INR-07 INT-05
L-03 LAB-04 NSAE-00 NSC-05 PA-01 EPG-02 AID-05
SS-15 STR-04 ITC-01 TRSE-00 USIA-06 PRS-01 SP-02
FEAE-00 OMB-01 OIC-02 AF-10 ARA-06 NEA-10 XMB-02
OPIC-03 /140 W

-----181324Z 060815 /47

R 181142Z MAY 77

FM USMISSION GENEVA
TO SECSTATE WASHDC 7463
INFO ALL EC CAPITALS
AMEMBASSY OTTAWA
AMEMBASSY TOKYO
USMISSION OECD PARIS
AMEMBASSY BERN
AMEMBASSY HELSINKI
AMEMBASSY OSLO
AMEMBASSY STOCKHOLM

LIMITED OFFICIAL USE SECTION 1 OF 2 GENEVA 3868

E.O. 11652: N/A

TAGS: GATT, ETRD

SUBJECT: GATT WP ON EXPORT INFLATION INSURANCE

REF: STATE 108253

1. BEGIN SUMMARY: WP CONTINUED PRESS COUNTRIES WITH EXPORT
INFLATION INSURANCE (EII) SCHEMES. UK ATTEMPTED DELINEATE
BETWEEN SELF-FINANCING AND DEFICIT SCHEMES. WHILE EXPENSIVE
FRENCH SCHEME AGAIN SUFFERED THE MOST INTENSE CRITICISM,
MANY WP MEMBERS RESISTED NOTION THAT EVEN ALLEGEDLY SELF-
FINANCING GOVERNMENT-SPONSORED EII PROGRAMS WERE ACCEPTABLE.
EC CONTINUED PRESS INTENSELY FOR DISCUSSION OF EXCHANGE-
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 GENEVA 03868 01 OF 02 181237Z

RATE INSURANCE; MATTER LEFT UNTIL NEXT, POSSIBLY LAST, MEETING
OF WP. LIKELY THAT FINAL WP REPORT WILL BE COMPLETED BEFORE
SUMMER BREAK AND THAT CONCLUSIONS WILL BE DIVIDED. END SUMMARY.

2. DURING MAY 16-17 SESSION SUBJECT GATT WORKING PARTY,
US NOTED THAT STATEMENTS BY ITALY AND FRANCE AT LAST
MEETING INDICATE THAT DEFICITS SEEM INHERENT IN ALL SCHEMES,

ASKED FOR DETAILS ON FRENCH MODIFICATIONS TO THEIR PROGRAM, AND REPEATED REQUEST THAT FRENCH SUPPLY PREMIUM AND CLAIMS DATA. JAPAN SUPPORTED BY NOTING THAT EVIDENCE INDICATES SCHEMES CANNOT BE SELF-FINANCING, AS HIGH INFLATION RATES WOULD CAUSE ALL COVERED EXPORTERS TO SUBMIT SIMULTANEOUS CLAIMS. SAID SCHEMES ARE MOST LIKELY EXPORT SUBSIDIES VIOLATING ART XVI AND SHOULD BE TERMINATED ASAP. NORWAY SAID EII SCHEMES, WHETHER OR NOT SELF-FINANCING, HAVE TANGIBLE EFFECT ON TRADE AND CALLED FOR DISMANTLEMENT.

3. UK DEFENDED ITS SCHEME BY ASSERTING THAT IT INSURED AGAINST COST INCREASES, NOT INFLATION, AND WAS DESIGNED TO OPERATE AS NON-SUBSIDIZED INSURANCE PROGRAM. UNDER QUESTIONING FROM US AND CANADA, UK DEL UNABLE TO COMMIT HMG FOR RECORD THAT PREMIUMS OR THRESHOLDS WOULD BE ADJUSTED IN FUTURE IF NECESSARY TO INSURE BALANCE OF COSTS AND CLAIMS. ALSO MAINTAINED THAT THERE WAS NO NEED FOR EQUAL TREATMENT OF EXPORTS TO THE EC AND TO THIRD COUNTRIES, SINCE EC WAS CUSTOMS UNION AND, FOR EXAMPLE, TARIFFS AFFECTED EXPORTS FROM THIRD COUNTRIES BUT NOT GOODS TRADED WITHIN THE EC.

4. FRANCE EXPLAINED THAT CHANGES TO ITS PROGRAM HAD THREE OBJECTIVES: (1) RESTORE FINANCIAL BALANCE, (2) AVOID CUMULATION OF BENEFITS TO FRENCH EXPORTERS FROM DOWNWARD FLOAT OF FRANC, (3) RESPOND TO CRITICS IN GATT AND OTHER FORA. DEL CALLED ATTENTION TO SURCHARGE ON PREMIUMS AND FACT COST OF LIVING RATHER THAN WORKER SALARY INDEX NOW USED. FRANCE ADMITTED SUBSTANTIAL AND TROUBLESOME DEFICITS SINCE 1971 WERE LIKELY TO CONTINUE TO AT LEAST 1980, BUT AGAIN REFUSED TO GIVE INCOME-LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 GENEVA 03868 01 OF 02 181237Z

OUTGO FIGURES ON GROUNDS OF BUSINESS CONFIDENTIALITY. MAINTAINED SCHEME WOULD NOT BE PHASED OUT BUT RECENT CHANGES WOULD EVENTUALLY CORRECT IMBALANCE. FRANCE SAID NO FURTHER CHANGES WERE CONTEMPLATED AS PRESENT. CANADA REPEATEDLY TOOK FRENCH AND UK TO TASK FOR ABSENCE OF ACTUARIAL PRECISION IN CALCULATING COSTS AND BENEFITS AND LACK OF PROVISIONS IN THEIR PROGRAMS FOR ADJUSTING FOR PAST DEFICITS.

5. DURING DISCUSSION ON NON-APPLICABILITY OF BRITISH SCHEME TO EXPORTS TO EC, EC DEL NOTED THAT EII PROGRAMS VIOLATE ARTICLE 92 OF ROME TREATY. HOWEVER, HE ADDED THAT PROVISIONS OF ROME TREATY ARE "MORE STRINGENT THAN THE GATT".

6. IN FURTHER DISCUSSION, FINNS ADMITTED THEY HAD "RUN INTO TROUBLE" ON EARLIER EXPERIENCE WITH THIS SCHEME BUT PRESENTED STATISTICAL EVIDENCE THAT THEIR SCHEME WAS SELF-FINANCING SINCE IT WAS RE-LAUNCHED IN 1974. US AND JAPANESE DEL NOTED THIS WAS TOO SHORT A TIME IN WHICH TO DRAW ANY CONCLUSION, AS PAYMENT OF CLAIMS ALWAYS CAME LATER. IN ANSWER TO US QUES-

TION, SPAIN CONFIRMED THAT ITS SCHEME WAS INOPERATIVE AND NOTED THAT WITH SPANISH INFLATION CURRENTLY AT 15 PERCENT IT WOULD NOT BE ADVISABLE TO ACTIVATE IT. WE SUGGESTED OTHER COUNTRIES HEED SPANISH EXAMPLE.

7. JAPANESE PROGRAM. WITH RESPECT JAPANESE TAX LOSS RESERVE PROGRAM, EC NOTED THAT A DOCUMENT SUPPLIED BY JAPAN WAS UNDER STUDY AND ADMITTED THAT SCHEME MIGHT BE DIFFERENT THAN EC FIRST SUPPOSED. (COPIES BEING HAND-CARRIED WASHINGTON BY WHITE, FRANCIS.) EC STILL "REFLECTING".

8. EXCHANGE RATE INSURANCE. EC PROVIDED DETAILED EXPLANATION WHY WP SHOULD CONSIDER EXCHANGE RATE FLUCTUATION INSURANCE. EC INTENSELY MAINTAINED THAT EII SCHEMES COULD NOT BE CONSIDERED IN ISOLATION AND THAT EFFECTS OF EII PROGRAMS AND THAT EXCHANGE RATE INSURANCE ON EXPORTERS' COMPETITIVENESS WERE SIMILAR. (TEXT OF LENGTHY EC CASE WILL BE POUCHED WHEN LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 04 GENEVA 03868 01 OF 02 181237Z

REPRODUCED.

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 GENEVA 03868 02 OF 02 181251Z

ACTION EB-07

INFO OCT-01 EUR-12 EA-07 IO-13 ISO-00 AGRE-00 CEA-01
CIAE-00 COME-00 DODE-00 FRB-03 H-01 INR-07 INT-05
L-03 LAB-04 NSAE-00 NSC-05 PA-01 EPG-02 AID-05
SS-15 STR-04 ITC-01 TRSE-00 USIA-06 PRS-01 SP-02
FEAE-00 OMB-01 OIC-02 AF-10 ARA-06 NEA-10 XMB-02
OPIC-03 /140 W

-----181323Z 061012 /47

R 181142Z MAY 77

FM USMISSION GENEVA
TO SECSTATE WASHDC 7464
INFO ALL EC CAPITALS
AMEMBASSY OTTAWA
AMEMBASSY TOKYO
USMISSION OECD PARIS
AMEMBASSY BERN
AMEMBASSY HELSINKI

AMEMBASSY OSLO
AMEMBASSY STOCKHOLM

LIMITED OFFICIAL USE SECTION 2 OF 2 GENEVA 3868

9. SWISS DELEGATE INDICATED READINESS TO GIVE INFO ON EXCHANGE INSURANCE BUT DOUBTED WP WAS PROPER CONTEXT. LINK BETWEEN INFLATION AND EXCHANGE RATES VERY SLENDER, THEREFORE SCHEME NOT PART OF TERMS OF REFERENCE. AUSTRIAN SCHEME ALSO SINGLED OUT BY EC BUT AUSTRIAN DEL UNABLE TO COMMENT. US AND JAPAN RESPONDED THAT INFLATION-EXCHANGE RATE LINK WAS WEAK AND STRAINED (EC, FOR EXAMPLE, TRIED JUSTIFY THIS ITEM ON BASIS IT COMPENSATED EXPORTERS FOR LOSSES DUE TO IMPORTING COUNTRY INFLATION.) AND SAID ANOTHER FORUM WOULD BE MORE APPROPRIATE.

10. EC, SUPPORTED BY FINNS, STRESSED SIMILARITY OF INFLATION INSURANCE AND EXCHANGE RISK SCHEMES IN THAT BOTH DESIGNED TO IMPROVE AND MAINTAIN COMPETITIVENESS OF EXPORTERS IN INTERNATIONAL MARKETS. EC SAID THEIR ANALYSIS DESERVED MORE DETAILED ATTENTION AND EVEN SUGGESTING POSSIBILITY OF BRINGING DISAGREEMENT ON THE POINT TO ATTENTION OF GATT COUNCIL. CHAIRMAN HOPED THAT COUNCIL WOULD NOT HAVE TO INTERPRET WP MANDATE. EC WILL MAKE ANOTHER ATTEMPT TO INCLUDE SOME REFERENCE TO THIS ITEM AT FINAL WP SESSION.

LIMITED OFFICIAL USE

PAGE 02 GENEVA 03868 02 OF 02 181251Z

TIONAL MARKETS. EC SAID THEIR ANALYSIS DESERVED MORE DETAILED ATTENTION AND EVEN SUGGESTING POSSIBILITY OF BRINGING DISAGREEMENT ON THE POINT TO ATTENTION OF GATT COUNCIL. CHAIRMAN HOPED THAT COUNCIL WOULD NOT HAVE TO INTERPRET WP MANDATE. EC WILL MAKE ANOTHER ATTEMPT TO INCLUDE SOME REFERENCE TO THIS ITEM AT FINAL WP SESSION.

11. GATT LEGALITY. US BEGAN BY REFUTING UK IMPLICATION AT PREVIOUS MEETING THAT 1960 LIST OF SUBSIDIES (WHICH DID NOT LIST EEII) WAS IN ANY WAY EXHAUSTIVE. NOTED THAT EII SCHEMES BY THEIR NATURE APPLIED ONLY TO EXPORTS, RESULTING IN A GREATER COST ADVANTAGE THAN THAT ENJOYED BY DOMESTIC GOODS. THE EXPORTER BENEFITED FROM ABSOLUTE ASSURANCES THAT THE GOVERNMENT WOULD ABSOLVE HIM OF A PORTION OF LOSSES INCURRED FROM UNEXPECTED COST INCREASES, AN ADVANTAGE NOT HELD BY OTHER EXPORTERS; THIS AFFECTED BIDDING BEHAVIOUR FROM THE BEGINNING. CANADA, SWEDEN, JAPAN, NORWAY AGREED SCHEMES "APPEARED" ILLEGAL UNDER XVI:4. CANADA CITED PARTICULARLY LARGE DEFICITS OF FRENCH SCHEME, NOTING THAT EVEN IF CHANGES MADE SCHEME SELF-FINANCING, LARGE LOSSES IN THE 1970'S WOULD NOT BE COVERED BY NEW PREMIUMS. SWEDEN STRESSED DUAL PRICING WAS SELF-EVIDENT AND SAID GOOD INTENTIONS OF GOVERNMENTS (TO MAKE SCHEMES SELF-FINANCING) COULD NOT BE TRUSTED. JAPAN QUESTIONED HOW LONG WAS "LONG RUN" IN REFERENCE TO FRENCH AND BRITISH AIM OF MAKING SCHEME SELF-FINANCING OVER PERIOD OF TIME.

12. UK CARRIED BULK OF DEFENSIVE ARGUMENT, WITH DETAILED STATEMENT FROM FRANCE ADDRESSING ONLY "INTENTION" TO MAKE FRENCH SCHEME SELF-FINANCING. UK ARGUED THAT DUAL PRICING

WOULD HAVE TO BE SHOWN UNDER XVI-4 AND REJECTED CLAIM THAT THIS WAS SELF-EVIDENT. STRESSED "INSURANCE" ASPECT OF PROGRAM BY ASKING IF ALL KINDS OF INSURANCE HAD SUBSIDY ELEMENT AND NOTING THAT 1960 WP (BISD 9TH SUPP) SEEMED BY IMPLICATION TO FAULT ONLY THOSE SCHEMES WHOSE LONG-RUN INCOME WAS MANIFESTLY INADEQUATE TO COVER OUTLAYS.

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 GENEVA 03868 02 OF 02 181251Z

13. WORKING PARTY WILL MEET FOR POSSIBLE FINAL MEETING IN JULY. SECRETARIAT TO BEGIN DRAFT REPORT FOR CIRCULATION BEFORE MEETING.

14. COMMENT. EC COMMISSION, SUPPORTED BY MEMBER STATES, APPEARS DETERMINED TO EXAMINE EXCHANGE RATE INSURANCE PROGRAMS AT LEAST IN CURSORY MANNER IN THIS WP. RECOMMEND US CONTINUE RESIST DISCUSSION IN THIS WP BUT RETAIN SOME FLEXIBILITY ON POINT SINCE EC MIGHT CARRY ISSUE TO GATT COUNCIL. CHANCES OF GETTING A PROMPT REPORT ON EXPORT INFLATION INSURANCE WOULD BE JEOPARDIZED IF THEY DID.

15. ANOTHER POTENTIAL PROBLEM IS THAT FINAL REPORT MIGHT BE WEAK IN OUTRIGHT CONDEMNATION OF SUPPOSEDLY SELF-FINANCING SCHEMES. WE HAVE PRESSED OTHER DELS FOR SUPPORT ON THIS ASPECT; WHILE CANADA, SWEDEN, NORWAY, SWITZERLAND, JAPAN DO NOT APPEAR TO HAVE REACHED FINAL DECISIONS ON THIS POINT, WE MILDLY OPTIMISTIC THEY WILL SUPPORT US -- AT LEAST TO DEGREE OF MAINTAINING "DOUBTS" OVER SELF-FINANCING SCHEMES. UNANIMOUS CONCLUSIONS ARE OUT OF THE QUESTION BY DEFINITION, OF COURSE, AS FRANCE, UK, ITALY, FINLAND, PORTUGAL, SPAIN COULD HARDLY BE EXPECTED CONDEMN OWN SCHEMES. SUGGEST US MAKE STATEMENT CONTAINED IN PARA 8 STATE 108253 CONCERNING INTENTION PURSUE OUR GATT RIGHTS, FOR INCLUSION IN FINAL REPORT. BELIEVE THIS IS ABSOLUTELY NECESSARY AS A MEANS TO DISCOURAGE ANY FURTHER PROLIFERATION WHICH MIGHT RESULT FROM DIVIDED REPORT. EC COMMISSION AGREES WITH US. SORENSON

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: INFLATION, EXPORT INSURANCE, MEETING REPORTS
Control Number: n/a
Copy: SINGLE
Sent Date: 18-May-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977GENEVA03868
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: UPGRADED TO CONFIDENTIAL PER 8/22/78 MEMO FROM EB/ITP - WILLIAM BARRACLOUGH
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D770176-1220
Format: TEL
From: GENEVA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770545/aaaabmrn.tel
Line Count: 263
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: b2036e91-c288-dd11-92da-001cc4696bcc
Office: ACTION EB
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 77 STATE 108253
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 27-Dec-2004 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2475208
Secure: OPEN
Status: NATIVE
Subject: GATT WP ON EXPORT INFLATION INSURANCE
TAGS: ETRD, GATT
To: STATE
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/b2036e91-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009